

Petition of Western Massachusetts Electric Company for approval of the Department of Public Utilities under Chapter 164, Section 14 of the Massachusetts General Laws to issue and sell up to \$135 million in principal amount of first mortgage bonds, or up to \$25 million aggregate par value of preferred stock, or a combination of both not to exceed \$160 million, during the period July 1, 1993 to June 30, 1995; for an exemption from the advertisement requirements of G.L. c. 164, Section 15; and for an exemption from the par value requirements of G.L. c. 164, Sections 15A.

-and-

ELECTRIC FOR: WESTERN MASSACHUSETTS
COMPANY

Petitioner

I. INTRODUCTION

On April 13, 1993, Western Massachusetts Electric Company ("WMECo" or "Company") filed a petition with the Department of Public Utilities ("Department"), pursuant to G.L. c. 164, § 14, for approval to issue and sell up to \$135 million in principal amount of first mortgage bonds, or up to \$25 million aggregate par value of preferred stock, or a combination of both not to exceed \$160 million, during the period July 1, 1993 to June 30, 1995. In response to a Department information request, the Company also sought exemptions from the competitive bidding requirements of G.L. c. 164, §15 and the par value requirements of G.L. c. 164, §§ 15A and 18 (Exh. DPU-23). On July 16, 1993, the Company withdrew its request for an exemption under G.L. c. 164, § 18 (Exh. DPU-23 (revised)).

To investigate the petition, the Commission designated Alicia C. Matthews, Esq. and Michael Isenberg, Esq. as hearing officers and assigned Claude R. Francisco, an economist with the Rates and Revenue Requirements Division of the Department, as technical staff.

Pursuant to notice duly issued, a public hearing was held at the Department's offices in Boston on June 10, 1993. No petitions for leave to intervene were filed. At the hearing, the Company presented two witnesses in support of its petition: Bruce F. Garelick, assistant treasurer for WMECo and assistant treasurer of finance for Northeast

Utilities Service Company ("NU") and George J. Eckenroth, manager of long-term finance for NU. The Company offered seventeen exhibits and the Department submitted thirty-four exhibits which include the Company's responses to thirty-three information requests of the Department. All of these exhibits were admitted into evidence.

WMECo is a wholly owned subsidiary of NU, a public utility holding company.¹ WMECo is engaged in the generation, transmission, and distribution of electric power and serves approximately 190,000 customers in over 50 cities and towns in western Massachusetts.

II. STANDARD OF REVIEW

In order for the Department to approve the issuance of stock, bonds, coupon notes, or other types of long-term indebtedness² by an electric or gas company, the Department must determine that the proposed issuance meets two tests. First, the Department must assess whether the proposed issuance is reasonably necessary to accomplish some legitimate purpose in meeting a company's service obligations, pursuant to G.L. c. 164, § 14. Fitchburg Gas & Electric Light Company v. Department of Public Utilities, 395 Mass. 836, 842 (1985) ("Fitchburg

¹ NU also wholly owns other electric utilities including the Connecticut Light and Power Company and Public Service Company of New Hampshire (Exh. DPU-18).

² Long-term refers to periods of more than one year after the date of issuance. G.L. c. 164, § 14.

II"), citing Fitchburg Gas & Electric Light Company v. Department of Public Utilities, 394 Mass. 671, 678 (1985) ("Fitchburg I"). Second, the Department must determine whether the Company has met the net plant test.³ Colonial Gas Company, D.P.U. 84-96 (1984).

The courts have found that, for the purposes of G.L. c. 164, § 14, "reasonably necessary" means "reasonably necessary for the accomplishment of some purpose having to do with the obligations of the company to the public and its ability to carry out those obligations with the greatest possible efficiency." Fitchburg II at 836, citing Lowell Gas Light Company v. Department of Public Utilities, 319 Mass. 46, 52 (1946).

The Fitchburg I and II and Lowell Gas cases also established that the burden of proving that an issuance is reasonably necessary rests with the company proposing the issuance, and that the Department's authority to review a proposed issuance "is not limited to a `perfunctory review.'" Fitchburg I at 678; Fitchburg II at 842, citing Lowell Gas at 52.

In cases where no issue exists about whether the management decisions regarding the requested financing were the result of a reasonable decision-making process, the Department limits its review

³ The net plant test is derived from G.L. c. 164, § 16.

under Section 14 to the question of whether proceeds from an issuance will be used for a purpose that, on its face, is reasonable. Canal Electric Company, et al., D.P.U. 84-152, at 20 (1984); see, e.g., Colonial Gas Company, D.P.U. 90-50, at 6 (1990).

Regarding the net plant test, a company is required to present evidence that its net utility plant (original cost of capitalizable plant, less accumulated depreciation) equals or exceeds its total capitalization (the sum of its long-term debt and its preferred and common stock outstanding, exclusive of retained earnings) and will continue to do so following the proposed issuance. Colonial Gas Company, D.P.U. 84-96, at 5 (1984).

Pursuant to G.L. c. 164, § 15, an electric or gas company offering long-term bonds or notes in excess of \$1 million in face amount must invite purchase proposals through newspaper advertisements. The Department may grant an exemption from this advertisement requirement if the Department finds that an exemption is in the public interest. G.L. c. 164, § 15. The Department has found it in the public interest to grant an exemption from the advertisement requirement where there has been a measure of competition in the private placement process. See, e.g., Western Massachusetts Electric Company, D.P.U. 88-32, at 5 (1988); Eastern Edison Company, D.P.U. 88-127, at 11-12 (1988); Berkshire Gas Company, D.P.U. 89-12, at 11 (1989). The

Department also has found that it is in the public interest to grant a company an exemption from the advertisement requirement when a measure of flexibility is necessary in order for a company to enter the bond market in a timely manner. See, e.g., Western Massachusetts Electric Company, D.P.U. 88-32, at 5 (1988).

Pursuant to G.L. c. 164, § 15A, an electric or gas company offering long-term bonds, debentures, notes, or other evidences of indebtedness may not issue said securities at less than par value. The Department may grant an exemption from this par value requirement if the Department finds that an exemption is in the public interest. G.L. c. 164, § 15A.

The Department has found that it is in the public interest to grant an exemption from the par value requirement where market conditions make it difficult at times for a company to price a particular issue at par value and simultaneously offer an acceptable coupon rate to prospective buyers. Bay State Gas Company, D.P.U. 91-25, at 10 (1991). The Department also found that it is in the public interest to authorize the issuance of securities below par value where this technique offers a company enhanced flexibility in entering the market quickly to take advantage of prevailing interest rates, particularly if this benefits the company's ratepayers in the form of lower interest rates and a lower cost of capital (*id.*). See also Boston Gas Company,

D.P.U. 92-127, at 8 (1992); Boston Edison Company, D.P.U. 91-47, at 12-13 (1991).

If the Department authorizes a company to issue securities at less than par value, the Department may establish the method by which the company is required to amortize any discount.⁴ G.L. c. 164, § 15A; see, e.g., Boston Gas Company, D.P.U. 92-127, at 8 (1992); Boston Edison Company, D.P.U. 91-47, at 15 (1991).

III. DESCRIPTION OF THE PROPOSED FINANCING

The Company proposes to issue and sell up to \$135 million in principal amount of first mortgage bonds, or up to \$25 million aggregate par value of preferred stock, or a combination of both not to exceed \$160 million (Exh. WMECo-16, at 1; Tr. at 8). The Company stated that the proceeds of the issuance will be used to redeem outstanding high-interest-rate first mortgage bonds and high-dividend-rate preferred stock, to purchase these securities in the open market, or to finance maturing long-term debt and finance both debt and preferred stock sinking fund requirements (Exh. WMECo-16, at 1).

In determining whether a series of outstanding first mortgage bonds or preferred stock is "high rate", the Company performed an economic analysis that compared the rates of the bonds and stock to be sold with the effective cost of the outstanding first mortgage bonds or

⁴ The discount is the difference between the par value of a bond, note, or other debt security and the actual issue price when the actual issue price is less than par value.

preferred stock, taking into account any premium payable for the redemption of the outstanding first mortgage bonds and preferred stock and the issuance costs of the bonds and stock to be issued (Exh.

WMECo-16, at 4-5). In its analysis, the Company determined the break-even rate for each outstanding series of securities (Exh. WMECo-11).

The Company stated that the break-even rate is the interest rate (first mortgage bonds) or the dividend rate (preferred stock) below which it would be economic for the Company to refund outstanding first mortgage bonds and preferred stock with the proceeds of the issuance of new bonds or preferred stock (Exhs. WMECo-16, at 5; WMECo-11).⁵

The Company determined high-rate securities to be those securities which have break-even rates that are relatively higher than the prevailing market rates (Exh. DPU-11). The Company added that

⁵ The Company defined the break-even rate as the rate of a new or replacement security, with a remaining life identical to the outstanding security, at which the present value of the difference in cash flows associated with the new issuance compared with the cash flows associated with the outstanding security is zero (Exh. DPU-10). The Company's break-even analysis for first mortgage bonds assumes underwriters fees of 0.66 percent plus other issuance expenses of \$150,000 (id.). The underwriter's fees are assumed to be 3 percent for preferred stock and 0.66 percent for preferred stock with mandatory sinking funds (id.). For both types of preferred stock, an issuance expense of \$150,000 was assumed (id.). The Company based its calculation of these assumed figures on the high end of actual costs of issuances in the past and noted that the actual fees and expenses may be somewhat lower (id.).

under the current relatively low-rate market, all of the Company's redeemable first mortgage bonds and all its fixed-rate preferred stock are considered high- rate securities (id.). The Company stated that it will not enter into a proposed open market purchase unless the Company first calculates that there will be a positive present value savings (id. at 6).⁶

The Company stated that the bonds would be issued in one or more series under and secured by the First Mortgage Indenture and Deed of Trust dated as of August 1, 1954, as supplemented and amended, between WMECo and the First National Bank of Boston, Successor Trustee (Exh. WMECo-16, at 10). The sale of each series of bonds would be consummated before June 30, 1995 (id.).⁷ The Company indicated that the interest rate on the bonds to be issued

⁶ The Company stated that its expected savings from the redemption of outstanding securities would depend on the actual rates obtained at the time of each issuance of a new security and the number of new securities issued (Exh. DPU-30). The Company indicated that, assuming the issuance of three bonds of various maturities and issuance of one series of preferred stock at estimated current market rates, the earnings available for common stock would increase by \$634,000 per year (id.).

⁷ The Company indicated that June 30, 1995 was selected as a date which is approximately two years from the date of initial authorization, a period over which the Company is comfortable in determining its needs and which is consistent with the general practice pursuant to the Securities and Exchange Commission's ("SEC") regulations for shelf registration of securities (Exhs. DPU-15; DPU-26).

would not exceed 9.5 percent per annum⁸ and would have a maturity of not less than two nor more than 30 years (id. at 9).

The Company stated that the preferred stock would be issued and sold in one or more series of up to 1,000,000 shares with a par value of \$25 per share, from time to time through June 30, 1995 (id. at 11). The dividend rate for the preferred stock either would be a fixed rate not to exceed 7.72 percent⁹ per annum or would be established pursuant to an auction rate mechanism¹⁰, depending on market conditions (id. at 12-14). The initial dividend rate applicable to the Auction Rate Preferred Stock ("ARPS") would be established by the Company and an investment banking firm (the underwriter) (id. at 13). Thereafter, the dividend rate would be determined for each successive dividend period based upon an auction (id.). The Company stated that the auction

⁸ The Company stated that, since it intends to issue first mortgage bonds only for the purpose of redeeming outstanding bonds and since the highest break-even rates for any of its mortgage bonds is 9.5 percent, it would not be economical for the Company to issue a new bond at a rate higher than 9.5 percent (Exh. DPU-13).

⁹ The Company indicated that under current market conditions the 7.72 percent cap would be the highest dividend rate at which it would be economical for the Company to do open market purchases of its current preferred stock (Exh. DPU-14).

¹⁰ The terms of the Auction Rate Preferred Stock ("ARPS") will be substantially the same as the Company's Dutch Auction Rate Transferable Securities ("DARTS"), which were issued by the Company in March, 1988 and approved by the Department in D.P.U. 87-170 (1987).

process involves submission of bids through broker-dealers, to a bank or trust company (Auction Agent) to buy or continue to hold shares of the ARPS at designated dividend levels (id.). The Auction Agent collects all bids, determines the winning bid rate and arranges with a clearing corporation for book entry transfer of the ownership of the shares of preferred stock (id.).

The Company is requesting flexibility in determining the redemption terms of the bonds and the preferred stock at the time of the offering of the bonds or preferred stock in order to design redemption terms that are most favorable to the Company while still being acceptable to the financial markets (id. at 11, 16). In the case of bonds, the Company stated that since investors generally do not like to have their bonds called, the greater the restrictions on the redemption terms of the bond, the lower the interest rate that would be demanded by investors (Exh. DPU-16). The Company noted that the amount of the reduction in interest received for increased restrictions is not constant over time. Therefore, the Company is requesting the flexibility to determine, at the time of issuance, whether the value of the reduced interest rate is worth forgoing for some ability to redeem the bond (id.). The Company claimed that the same considerations apply in the case of preferred stock and therefore the Company requested the same flexibility in determining the redemption terms of the first mortgage

bonds and preferred stock (id.; Exh. DPU-17).

The Company stated that, if the new securities are sold prior to the redemption, maturity, or sinking fund payment date of the first mortgage bonds or preferred stock, the Company may invest the net proceeds from the sale of these securities temporarily in the NU System Money Pool (Exh. WMECo-16, at 17).¹¹ The Company added that since a series of securities may be sold in advance of the maturity date of short-term borrowings, the Company may also temporarily invest the net proceeds of the sale of securities in the NU System Money Pool (Exh. WMECo-1, at 2).¹²

The Company claimed that temporary investment of excess funds in the NU System Money Pool benefits WMECo's ratepayers by providing the Company with a higher return on investments than

¹¹ The Company stated that the NU System Money Pool was established to provide a more effective use of the cash resources of the NU system and to reduce outside short term borrowings where short-term borrowing needs of the Company are first met with available funds of other NU subsidiaries member companies (Exh. DPU-1). The Company noted that investing and borrowing subsidiaries of NU receive or pay interest based on the average daily Federal Funds rate, and that funds may be withdrawn from or repaid to the NU System Money Pool at any time without notice (id.).

¹² In Western Massachusetts Electric Company, D.P.U. 85-159 (1986), the Department approved WMECo's request to participate in the NU System Money Pool, including the investments of any funds in excess of its cash requirements.

alternative short-term investments (Exh. DPU-1).¹³ The Company, however, indicated that where it has an outstanding higher rate short-term debt outside of the NU System Money Pool, then it would first pay the short-term debt and invest the remaining excess cash in the money pool (Tr. at 21).¹⁴

WMECo is requesting an exemption from the competitive bid solicitation requirements of G.L. c. 164, §15 for the issuance of bonds (Exh. WMECo-16, at 18). The Company asserted that if the exemption is granted the Company would be allowed to eliminate the requirement that notice be published, proceed directly to the competitive offering process, and react quickly to favorable changes in the bond market (Exh. WMECo-1, at 3-4). WMECo stated that it is in constant contact with the market, obtaining information on current market conditions and potential investors, and therefore may select for the bidding

¹³ The Company noted, for example, that funds invested in the NU System Money Pool between May 20 and May 27 would have earned interest at an annual average of 3.08 percent while an investment over the same period in a treasury bill would have earned interest at an annual rate of 2.55 percent (Exh. DPU-1; Tr. at 20). From the context of the Company's statement, the Department assumes the year to which the Company is referring is 1993.

¹⁴ For example, the Company indicated that its short-term debt outstanding as of May 26, 1993 was \$14 million with 3.30 percent interest rate and that should funds have been available from the NU System Money Pool, the rate would have been 3.21 percent (Exh. DPU-3).

process those underwriters which are most likely to be highly competitive (Exh. DPU-6). The Company claimed that by inviting underwriters to submit bids, the Company assures that it will receive a competitive rate on its securities (id.). The Company asserted that this is an efficient system for communicating its desire to receive proposals from the financial community and that the advertisement requirements would not enhance this process (Exh. WMECo-16, at 4).

The Company stated that the primary difference in the cost of bonds and stock issuances under the Company's proposed method compared to the cost under the competitive bid requirement pursuant to G.L. c. 164, § 15 is due to the additional time needed to comply with § 15 (Exh. DPU-2). The Company noted that the market for new issuances is very volatile and therefore a delay in the issuance of a new bond increases the exposure of the Company to adverse shifts in rates (id.).¹⁵ The Company asserted that because it does not need publication to ensure the participation of several underwriters in the bidding process, the advertising requirements of G.L. c. 164, § 15 would add no benefit to the Company or its ratepayers (id.).

The Company also requests an exemption from the par value

¹⁵ The Company noted, for example, that if the entire \$160 million proposed financing were issued at rates 25 basis points higher because of delay in issuances, then it would have cost the Company \$400,000 per year before taxes (Exh. DPU-2).

requirements of G.L. c. 164, §§ 15A. The Company indicated that it may agree to sell bonds to underwriters at less than the face amount or par value, which underwriters in turn may reoffer at less than face amount or par value (Exh. DPU-23).¹⁶ The Company claimed that selling below face amount or par value is in accord with normal financial practices relating to marketing considerations (id.). The Company stated that the functional equivalent of the competitive bidding process which is utilized by the Company ensures that the Company will achieve economy in the cost of capital, because the successful proposal will be that which represents the lowest effective annual cost to the Company regardless of the amount which is bid for the bonds (id.). For accounting purposes, the Company proposed to amortize any discount over the life of the issue (Tr. at 29-30).

The Company submitted copies of resolutions of its board of directors approving the proposed financing (Exh. WMECo-6).

¹⁶ The Company claimed that its cost-of-money calculations take into account the fact that less than face amount or par value would be received by the Company upon issue or sale of the bonds (Exh. DPU-23).

IV. CAPITAL STRUCTURE OF THE COMPANY

The Company provided an analysis of its capital structure as of December 31, 1992, and updated that information as of March 31, 1993 by Department request (Exh. WMECo-16, at 3; Exh. DPU-7). The Company stated that the capital structure has not changed significantly since March 31, 1993 (Tr. at 31). The Company's analysis shows that as of March 31, 1993, the Company's total common stockholders' equity totalled \$273,765,000, consisting of 1,072,471 shares, with a par value of \$25.00 per share and \$97,854,000 in retained earnings (Exh. WMECo-7(a)1, at 2¹⁷; Exh. DPU-19). The Company also reported \$99,000,000 in total cumulative preferred stock and long-term debt of \$393,305,000 (Exh. DPU-7). The Company's total capital was \$668,216,000 (\$273,765,000 - \$97,854,000 + \$99,000,000 + \$393,305,000) excluding retained earnings (id.).

The Company's utility plant as of March 31, 1993 was \$1,165,994,000 (id.). The accumulated depreciation against this plant was \$372,985,000 (id.). The Company's nuclear fuel inventories were \$36,917,000 (id.).¹⁸ The Company reported \$17,350,000 in construction

¹⁷ The Company reported \$273,761,000 in total common stock in Exhibit DPU-7, an amount which appears to be a typographical error.

¹⁸ The Company also provided the dollar amount of end-of-month nuclear fuel inventory from March 1992 to February 1993

work in progress (id.). Thus, as of March 31, 1993, the Company had a net utility plant of \$847,276,000 (\$1,165,994,000 - \$372,985,000 + \$17,350,000 + \$36,917,000) and an excess of net utility plant over outstanding capital of \$179,060,000 (\$847,276,000 - \$668,216,000) (id.).

The Company, however, indicated that the total amount of the \$160,000,000 proposed financing was not included in its calculation of the net utility plant (Exh. WMECo-16). The Company reasoned that, because the proceeds from the proposed bond and preferred stock issuances will be used to replace currently outstanding high rate securities, such issuances will not affect the Company's outstanding stock and long term debt (id.; Exh. DPU-7; Tr. at 13-14).

The Company, however, acknowledged that in the situation where it has issued new securities and temporarily invested the excess funds in the NU System Money Pool before redemption of the outstanding high rate securities, the Company's long-term debt or preferred stock would increase (Tr. at 16-17).¹⁹ The Company, however, stated that its

(Exh. DPU-9). The Company noted that the declining trend in the amount of monthly nuclear inventory is due to the Company's cost containment efforts in reducing the level of nuclear fuel inventory and to the decreasing cost of nuclear fuel (Tr. at 11-12).

¹⁹ In the extreme case that the Company issues all the \$160 million worth of bonds and stock and invests the funds in the NU System Money Pool, the Company's capitalization would increase by \$160

investment of funds in the money pool would be just for a short period of two to three weeks, taking into account the process and timing of selling new securities and calling the old securities (id. at 15-16; Exh. DPU-1). The Company indicated that instead of temporarily investing the excess funds in the NU System Money Pool, it may leave the funds with the trustee in trust for the bondholders who will be called (Tr. at 16-17). The Company, however, claimed that such an alternative method of handling the temporarily excess funds would not be efficient and that investing the funds in the NU System Money Pool would reduce the borrowing costs for all member companies and at the same time provide a higher rate of return to WMECo (id.).

V. ANALYSIS AND FINDINGS

Based on the foregoing, we find that the use of the proceeds from the issuance and sale of the preferred stock and first mortgage bonds to redeem high-interest outstanding first mortgage bonds and high-dividend preferred stock, to purchase these securities on the open market, or to finance maturing long-term debt and finance debt and preferred stock sinking fund requirements, is reasonably necessary in accordance with G.L. c. 164, § 14. The Department also finds the two-

million. Even under this hypothetical, however, the Company's proposed financing would still meet the net plant test (\$847,276,000 - [\$668,216,000 + \$160,000,000] = \$19,060,000).

year period of July 1, 1993 to June 30, 1995 proposed by the Company to issue the preferred stock and first mortgage bonds appropriate.

However, given the Department's inability to grant retroactive approval of stock and bond issuances, the Department's grant of authority and approval of the Company's petition will commence as of the date of this Order and extend to June 30, 1995.

The Department finds that the Company's request for flexibility in determining the redemption terms of the bonds and preferred stock at the time of the offering is reasonable as it will allow the Company to design redemption terms that are favorable to the Company while still being acceptable to the financial markets.

Issues concerning the prudence of the Company's capital financing have not been raised in this proceeding, and the Department's decision in this case does not represent a determination that any project is economically beneficial to the Company or its customers. The Department's determination in this Order is not in any way to be construed as a ruling

relative to the appropriate ratemaking to be accorded any costs associated with the proposed financing.

In addition, based on the record in evidence, the Department finds that the Company's proposed bond and stock issuances meet the net plant test because the Company's total stock and long-term debt will not exceed the Company's net utility plant after the proposed issuances and after the proceeds of those issuances have been used to redeem existing high- rate first mortgage bonds and preferred stock. Accordingly, based on the circumstances that affect the proposed financing, the Department finds that the Company's existing net utility plant is sufficient to support the issuance and sale of up to \$160 million of first mortgage bonds and/or preferred stock.

Regarding the Company's proposed private placement process, the record shows that the process provides adequate competition for the issuance of its first mortgage bonds consistent with the objectives of newspaper advertisement. Also, we find that it is appropriate to allow the Company the flexibility offered by the private placement process in order to assist the Company's timely entry into the financial markets. Therefore, the Department finds that it is in the public interest to exempt the Company from the requirements of G.L. c. 164, § 15, requiring newspaper publication.

The Company has also requested an exemption from the par value

requirements of G.L. c. 164, § 15A. The Department finds that the ability to issue debt securities below par value offers the Company increased flexibility in placing its issuances with the prospective underwriters. We find also that this increased flexibility translates into an ability to issue debt securities in a timely manner to take advantage of favorable market conditions. We find, therefore, that the Company's request for an exemption from G.L. c. 164, § 15A is in the public interest and accordingly approves it.

In accordance with G.L. c. 164, § 15A, the Company has proposed to amortize the amount of any discount from par value over the life of the bond. The Department finds that this proposal is in the public interest and accordingly approves it.

V. ORDER

Accordingly, after due notice, hearing and consideration, the Department

VOTES: That the issuance and sale by Western Massachusetts Electric Company of up to 1,000,000 shares of its Preferred Stock, \$25 par value per share, dividend rate of up to 7.72 percent per annum, and the issuance and sale of up to \$135,000,000 principal amount of first mortgage bonds, at an interest rate of up to 9.5 percent per annum, or a combination of both not to exceed \$160,000,000, are reasonably necessary for the purposes for which such issues have been authorized;

and further

VOTES: That the issuance and sale by Western Massachusetts Electric Company of up to \$135,000,000 principal amount of first mortgage bonds, at less than par value pursuant to G.L. c. 164, §15A is in the public interest and that if a security is sold at less than par value, it is in the public interest to amortize the discount over the life of the security; and it is

ORDERED: That the Department hereby grants to Western Massachusetts Electric Company its authorization and approval of the issuance and sale in one or more series of up to 1,000,000 shares of its Preferred Stock, \$25 par value per share, dividend rate of up to 7.72 percent per annum, and the issuance and sale in one or more series of up to \$135,000,000 principal amount of first mortgage bonds, at an interest rate of up to 9.5 percent per annum, or a combination of both not to exceed \$160,000,000 from the date of this order to June 30, 1995 with the flexibility to determine the redemption terms of the preferred stock and bonds at the time of the offering; and it is

FURTHER ORDERED: That the issuance and sale by Western Massachusetts Electric Company of up to \$135,000,000 principal amount of first mortgage bonds, at less than par value pursuant to G.L. c. 164, §15A is in the public interest and that if a security is sold at less than par value, it is in the public interest to amortize the discount over

the life of the security; and it is

FURTHER ORDERED: That the Company's issuance and sale of up to \$135,000,000 principal amount of first mortgage bonds, without inviting proposals for the purchase thereof by publication in certain designated newspapers, is in the public interest, and such issuance and sale shall be exempt from the provisions of G.L. c. 164, § 15; and it is

FURTHER ORDERED: That the proceeds from the issuance and sale of up to 1,000,000 shares of its Preferred Stock, \$25 par value per share, dividend rate of up to 7.72 percent per annum, and the issuance and sale of up to \$135,000,000 principal amount of first mortgage bonds, at an interest rate of up to 9.5 percent per annum, or a combination of both not to exceed \$160,000,000, authorized herein, shall be used to redeem high-interest outstanding first mortgage bonds and high-dividend preferred stock, to purchase these securities on the open market, or to finance maturing long-term debt and finance debt and preferred stock sinking fund requirements.

By Order of the

Department,